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MONDAY, JANUARY 18, 1988

Telephony

INTEGRATING VOICE AND DATA COMMUNICATIONS

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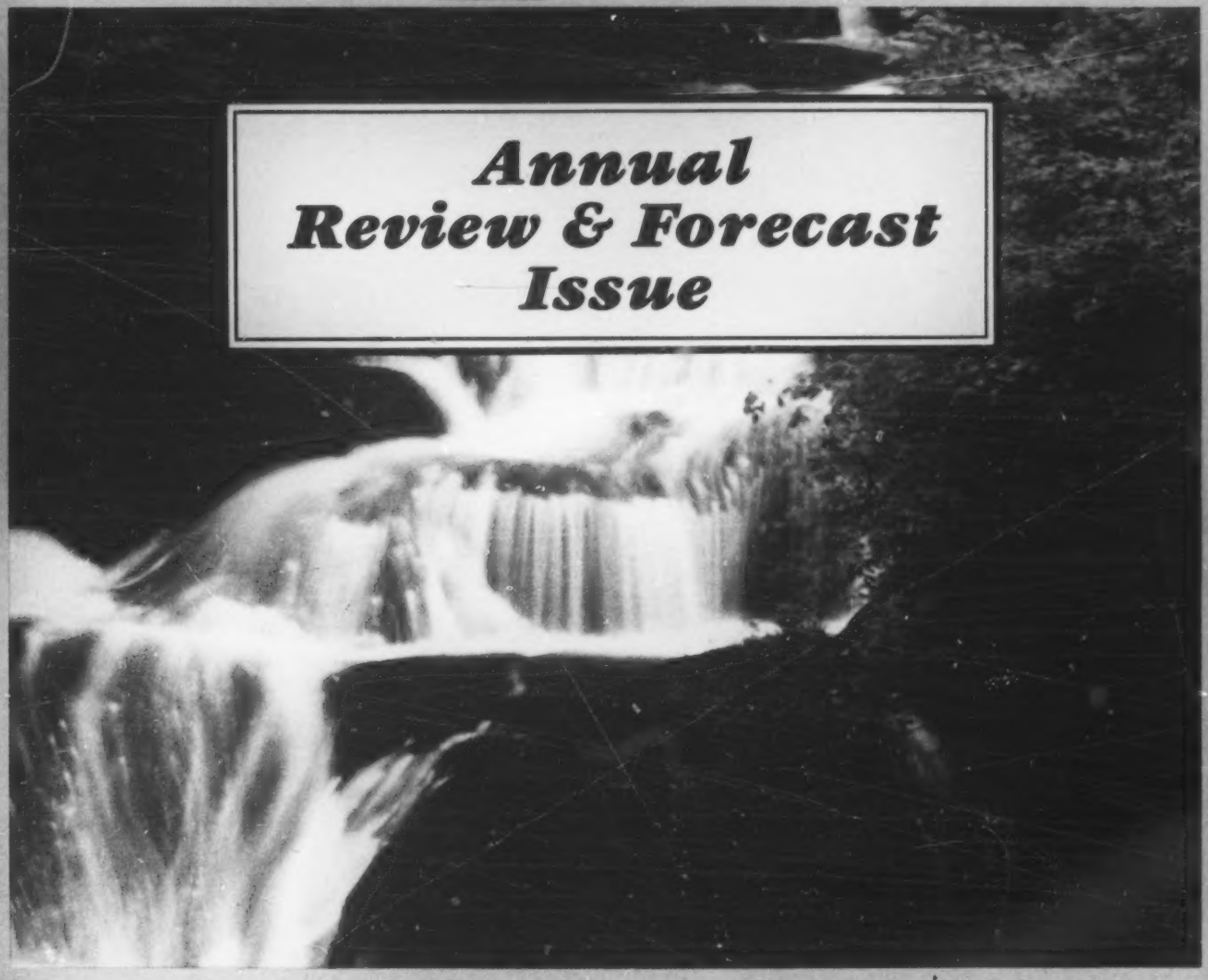

SPENDING FALLS GENTLY IN 1988

Aggregate spending by carriers will drop by less than 0.5%, a small but significant shift

ILL. BELL, McDONALD'S WRITE ISDN CHAPTER

Makes first use of technology in daily operations

SWEDISH LINK A WORLD FIRST

Integrates leased data lines, phone network

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MONDAY, JANUARY 18, 1988 Volume 214, No. 3

Telephony

INTEGRATING VOICE AND DATA COMMUNICATIONS

Telephony's annual review and forecast reveals that aggregate spending by local exchange carriers and interexchange carriers will gently fall in 1988. Cover photo by Jurgen Schmitt, The Image Bank

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Spending falls gently in 1988

Aggregate spending by local exchange carriers and interexchange carriers will drop by less than 0.5% in 1988, a small but possibly significant shift in the 1980s' pattern of flat growth. Central office and various forms of transmission equipment continue to be the big ticket items. RHC spending will not decline significantly next year

LARRY LANNON, Editor, and CZATDANA INAN, Marketing Development and Research Director

Spending in the telecommunications industry will go gently down in 1988.

The decline will be small indeed. Spending in 1988 will dip by less than 1%, 0.4% to be more precise.

But after a couple of years of flat growth and a small decline last year in industry expenditures, 1988 may mark the consolidation of a more austere cycle within the industry.

However, 1988 also is expected to see a slowing in the decline of industry expenditures from roughly 2% in 1987 to less than 1% this year.

Sharper declines are expected in 1989.

These conclusions are based on information gathered by *Telephony*'s Market Research Department.

Break It Down

Expenditures by both local exchange carriers, or LECs, and interexchange carriers, or IXCs, will decrease from $24.55 billion last year to $24.45 billion, a $98 million drop-off.

This will mark the second time since the 1984 break-up of the Bell System that total industry expenditures will decline.

Aggregate LEC and IXC expenditures had been $21.90 billion in 1984. They soared in 1985 to $25.06 billion. In 1986, they hovered at $25.04 billion, nearly the same level as in 1985.

Last year, industry expenditures dropped for the first time since divestiture.

Spending declined by roughly $490 million to $24.55 million in 1987. This year, expenditures dropped again but not as far.

There is one constant in tracking industry expenditures. The local exchange industry continues to play the much larger role in the industry's purchasing equation.

In 1988, the interexchange industry will spend $4.63 billion this year (Table 1). The local exchange industry will spend $19.82 billion on goods and services (Table 2).

So the LECs will account for roughly 81% of total industry expenditures. The IXCs account for the remaining 19%.

The LEC segment of the industry is responsible for the overall industry downturn in expenditures. This is predictable enough, given the fact that the LECs account for four-fifths of all industry expenditures. In fact, the IXCs will increase their spending in 1988.

IXC expenditures will go from $4.54 billion last year to $4.63 billion this year, an increase of roughly $87 million.

IXC expenditures since divestiture have grown from approximately $4 billion in 1984 to $4.98 billion in 1985 to an all-time high of $5.02 billion in 1986. Last year saw a sharp decline to $4.54 billion, a 10% spending drop offset in part by the 20% increase anticipated in 1988.

However, IXC expenditures are expected to drop to $4.53 billion next year.

Methodology

The information in this report is based on exclusive primary research conducted by *Telephony*'s Market Research Department in November and December 1987.

Each of the Bell operating companies and Top 18 Independents were queried on their network expansion budgets for 1984-89 and the anticipated percent of the 1988 budget to be spent for equipment vs. capitalized labor in 10 major plant and facility categories. In addition, the LECs were asked to report installed lines, the current distribution of lines and switches by technology, their current fiber optic facilities, fiber miles installed 1984-87 and projections for 1988 and 1989. The interexchange carriers were queried only on their 1984-89 network expansion budgets.

Any estimates that appear in this report have been cross-checked by *Telephony*'s Market Research Department against filings by the LECs and IXCs with the Federal Communications Commission, the Securities and Exchange Commission and the *Telephony* Market Research Department database and are believed to be accurate within 5% plus or minus of the estimated amounts.

The Big Top

But the real action is in the LEC industry.

The LECs will spend $19.82 billion in 1988. Last year, the LECs spent slightly more than $20 billion. So the LEC segment of the industry will cut its expenditures by $185 million this year, or roughly 1%.

The net decline in telecommunications industry spending is directly attributable to that 1% decline in LEC expenditures.

Total industry expenditures will be down by approximately $98 million, but LEC expenditures will be cut by $183 million.

A closer look at the figures shows that the decline in LEC expenditures is largely attributable to spending decisions made by Independent companies.

The LEC industry has three components: the Bell regional holding companies, or RHCs; the 18 largest Independent companies, or Top 18 Independents; and the more than 1000 smaller Independent companies, or Other Independents. The RHCs are far and away the largest and the Other Independents are easily the smallest of the three components.

The RHCs will account for expenditures of $14.06 billion in 1988, or approximately 71% of aggregate LEC expenditures. The Independent industry will spend $5.76 billion in 1988, roughly 29% of the industry's total.

Within the Independent industry, the Top 18 Independents will spend $4.9 billion and the Other Independents will spend $864 million in 1988.

The Top 18, thus, will account for 85% of the Independent industry's expenditures and roughly 25% of the LEC industry's outlays in 1988. The Other Independents will account for roughly 5% of total LEC expenditures and 15% of Independent industry expenditures in 1988.

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TABLE 1 INTEREXCHANGE CARRIER BUDGETS 1984-1989

	1984	1985	1986	1987	1988	1989	AVERAGE 1984-86	AVERAGE 1987-89
AT&T Communications	$1,341.9	$2,108.9	$2,556.8	$2,358.2[a]	$2,947.8[b]	$3,000.0[b]	$2,002.5	$2,768.7
MCI	1,157.2	1,000.1	950.0	800.0	700.0	600.0	1,035.8	700.0
US Sprint	1,467.1	1,687.0	925.0	900.0	850.0*	800.0*	1,359.7	875.0
ALC Communications	22.7	36.9	36.0	36.0	34.0*	32.0*	31.9	34.0
NTN	4.5	150.0	550.0	450.0	100.0	100.0	234.8	216.7
	$3,993.4	$4,982.9	$5,017.8	$4,544.2	$4,631.8	$4,532.0	$4,664.7	$4,594.3

Source: Telephony/Market Research

* Telephony estimates

a: based on $1,768.7 million spent as of Sept. 1987.

b: based on AT&T announced increases.

Spending *continued*

Given the industry's economic topography, the cause behind the small but significant projected decline in 1988 industry expenditures becomes much clearer.

In 1987, the RHCs spent $14.06 billion, a figure that will shrink very slightly to $14.05 billion this year. The approximate decline in 1988 RHC expenditures will only be $6 million. That figure equates to a decline of less than 0.04% —less than one-tenth of 1% —compared to year-previous outlays.

The Top 18 Independents will spend roughly $4.9 billion this year, a drop of $150 million, or roughly 3%, from the $5.05 billion spent by that group last year.

The Other Independents, like their larger Independent relatives, also will reduce their 1988 spending by about 3%, from $891 million in 1987 to $864 million

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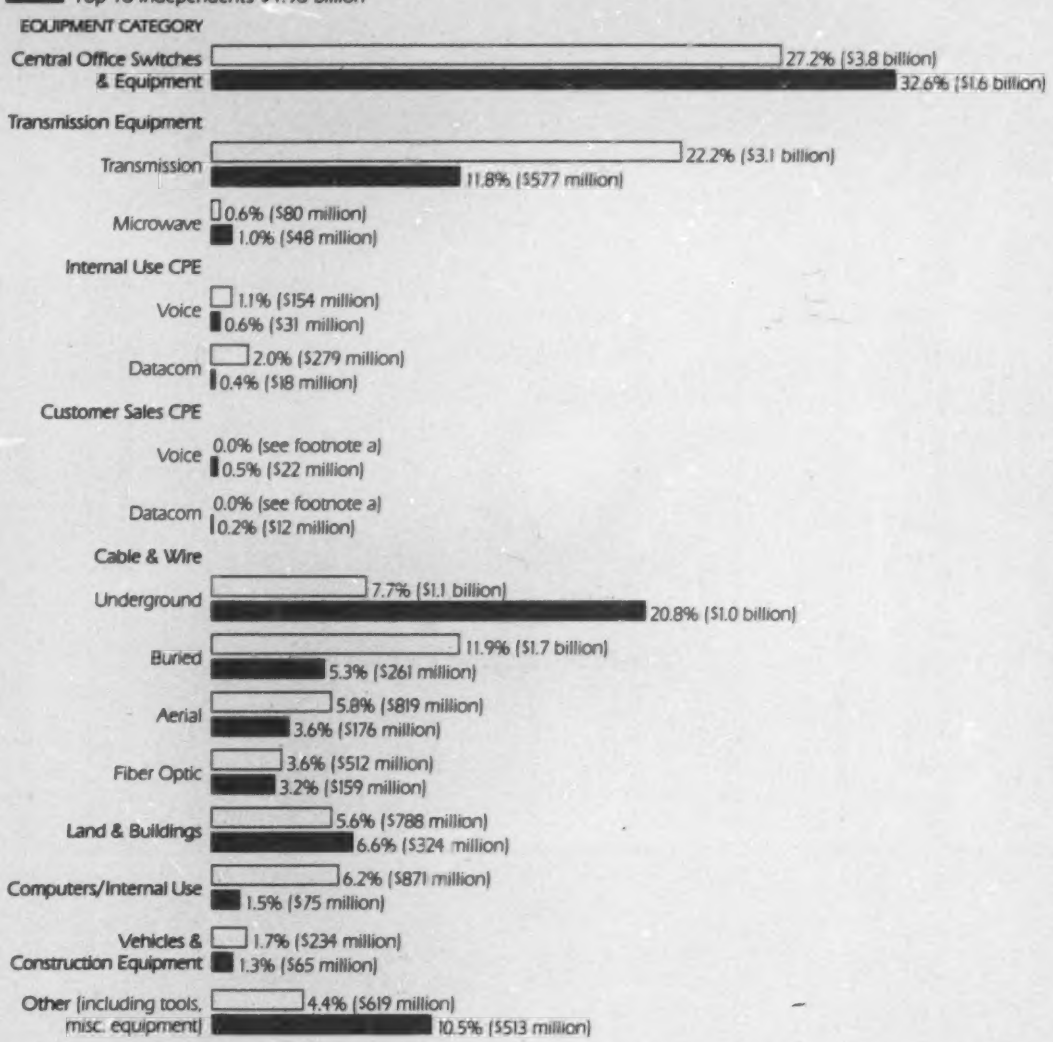
FIGURE 1 LECs' DISTRIBUTION OF 1988 CAPITAL EXPENDITURES*



Source: Telephony/Market Research

* Equipment and capitalized labor

a: For the RHCs, voice and data customer equipment is handled by CPE subsidiaries

Spending *continued*

this year, a spending reduction of roughly $27 million.

The crucial role played by the Top 18 Independents is demonstrated further by an analysis of the $183 million differential between 1987 and 1988 LEC spending. The RHCs account for roughly $6 million, or about 3%, of the $183 million differential. The Other Independents account for $27 million, or 15%, of the differential. The Top 18 Independents account for a whopping $150 million, or slightly more than 82%, of the differential.

The picture comes into focus. The large Independents are driving the change in the industry's spending picture.

The IXC portion is the only segment of the indus-

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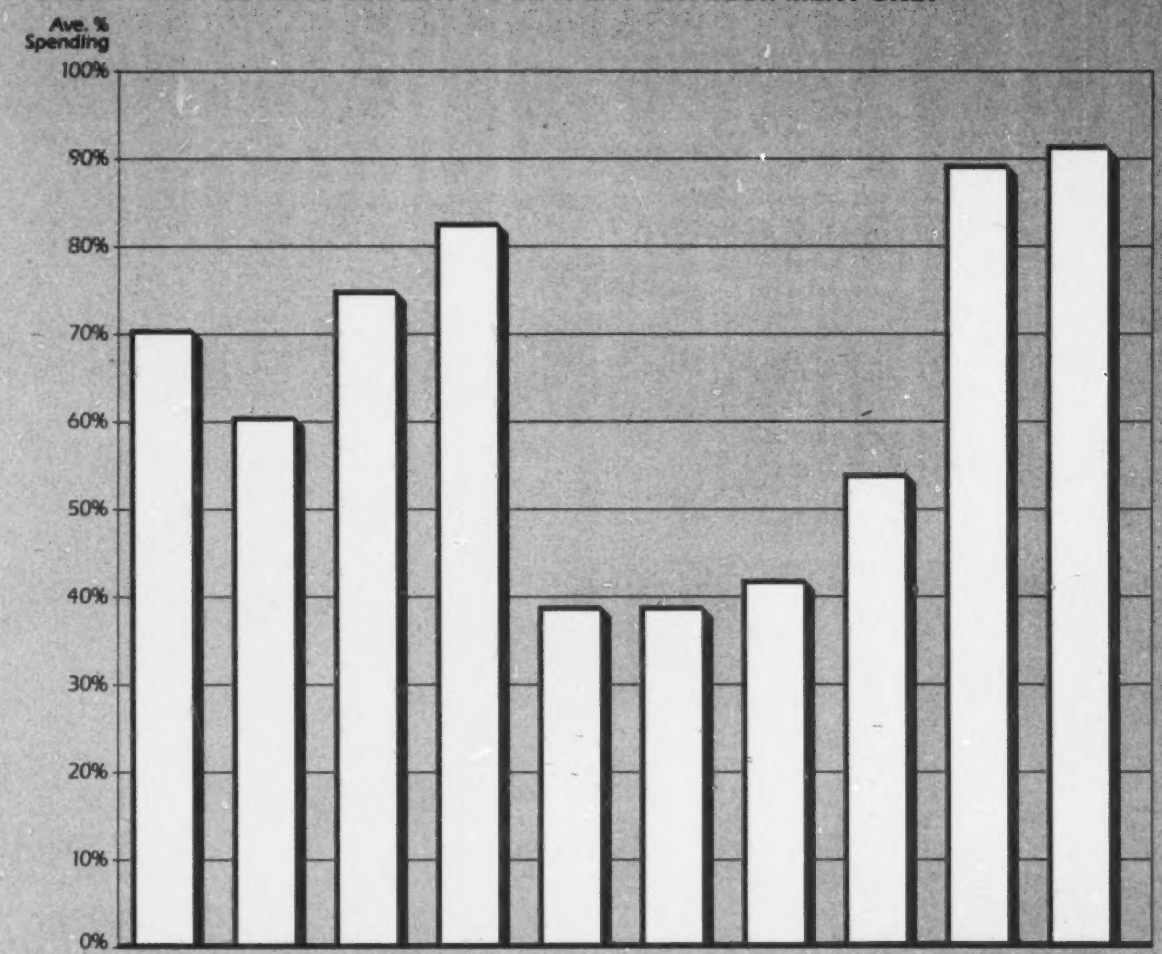
FIGURE 2 % OF LEC 1988 BUDGETS TO BE SPENT FOR EQUIPMENT ONLY[a]



Equipment Category	Switching	Transmission	Voice CPE/ Internal	Datacom CPE/ Internal	Underground Cable[b]	Buried Cable[b]	Aerial Cable[b]	Fiber Cable[c]	Computers/ Internal	Vehicles/ Constr. Equip.
Actual Equipment Dollars	$3.8 billion	$2.3 billion	$139 million	$297 million	$819 million	$765 million	$418 million	$362 million	$842 million	$275 million

[a] LEC budgets are comprised of capitalized labor and actual equipment expenditures. Figure 2 examines the average share of budget that represents equipment acquisitions in 10 major plant categories. For example, the RHCs and Top 18 Independents will spend $5.4 billion in 1988 for central office switching and related equipment (see Figure 1). Of that, 70% or $3.8 billion represents equipment and 30% or $1.6 represents capitalized labor.

[b] wire & cable (metallic) and related materials

[c] including related materials

try with expenditures that will grow in 1988. The RHC segment, easily the most important segment of the industry in terms of expenditures, will reduce its expenditures by a barely perceptible amount. The Other Independents will reduce their spending by about 3%.

But the Other Independents are so small that their net decrease in expenditures affects overall industry totals only marginally.

The Top 18 Independents will play the key role. They also will decrease their expenditures next year by 4%. Because of their substantial economic muscle, the decisions made by Top 18 Independent companies will move the industry total down in 1988.

And a single Independent is largely responsible for the downturn.

Purchasing decisions are made by companies, not industry segments. Individual companies and their managers are the active elements in the industry's economic chemistry.

Only two of the seven RHCs plan to increase expenditures this year (Table 2). Two RHCs will spend the same amount as last year. The three remaining RHCs will reduce their expenditures.

Pacific Telesis plans the largest spending increase among the RHCs in 1988. Pacific Telesis, which spent $1.58 billion last year, will spend $1.7 billion this year. That $120 million differential represents a robust 7.5% increase.

Nynex will spend roughly 1% more in 1988 than it did in 1987. Nynex's 1987 outlay was $2.26 billion. In 1988, Nynex will spend $2.29 million, a $30 million increase.

Southwestern Bell will spend $1.4 billion in 1988, the same amount it spent last year.

Bell Atlantic also will hold steady. It spent $2.273 billion last year. This year, Bell Atlantic will spend $3 million less, or $2.270 billion, a microscopic difference of 0.1%.

U S West will cut its expenditures by $60 million this year. It spent $1.72 billion in 1987. This year, U S West will spend $1.66 billion, a 3% drop-off.

Ameritech will cut its 1988 spending by 4%. The Midwestern giant spent $1.87 billion in 1987 and will spend $1.79 billion this year, a cut of $80 million.

In terms of total expenditures, the four RHCs east of the Mississippi continue to out-spend the three Western telecom behemoths by a wide margin. Nynex, Bell Atlantic, BellSouth and Ameritech together account for 66% of all RHC expenditures.

BellSouth will spend $2.95 billion in 1988, a full 21% of the $14.06 billion the seven RHCs will spend.

Nynex will spend $2.29 billion in 1988, or 16% of the RHC total.

Bell Atlantic will spend $2.27 billion this year, also 16% of the RHC total.

Ameritech will spend $1.79 billion, 13% of the RHC total.

Pacific Telesis will spend $1.70 billion, 12% of the RHC total.

U S West will spend $1.66 billion, also 12% of the RHC total.

Southwestern Bell will spend $1.40 billion in 1988, 10% of the RHC total.

1988 RHC Spending Scorecard (% Change)

1. Pacific Telesis	+7.5%
2. Nynex	+0.3%
3. Southwestern Bell	0.0%
4. Bell Atlantic	0.0%
5. BellSouth	-0.3%
6. U S West	-3.0%
7. Ameritech	-4.0%

RHC Big Spenders (name, total in billions of dollars, portion of RHC total)

1. BellSouth	2.95	21%
2. Nynex	2.29	16%
3. Bell Atlantic	2.27	16%
4. Ameritech	1.79	13%
5. Pacific Telesis	1.70	12%
6. U S West	1.66	12%
7. Southwestern Bell	1.40	10%

Top 18 Spenders

Among the Top 18 Independents, nine will increase their expenditures next year.

United Telecom will spend $638 million next year, up 1% from the $632 million this Independent spent last year.

Contel will increase its expenditures by 3.5%, from $489 million in 1987 to $506 million this year.

Southern New England Telephone will increase its

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Spending *continued*

outlay from $369 million in 1987 to $380 million this year, a 3% growth rate.

Puerto Rico Tel will boost its expenditures by 4.5%, from $220 million last year to $230 million in 1988.

Rochester Telephone will spend $88 million in 1988, up 3.5% from $85 million in 1987.

TDS will increase its spending by an eye-popping 21%, from $33 million in 1987 to $40 million in 1988.

Pacific Telecom will increase its spending by a healthy 8%, from $39 million in 1987 to $42 million in 1988.

Top 10 LEC Spenders (total in billions of dollars)

1. BellSouth	2.95
2. GTE	2.36
3. Nynex	2.29
4. Bell Atlantic	2.27
5. Ameritech	1.79
6. Pacific Telesis	1.70
7. U S West	1.66
8. Southwestern Bell	1.40
9. United	0.64
10. Contel	0.51

Five Biggest LEC Gainers in 1988

1. TDS	+21%
2. Pacific Telecom	+8.0%
3. Pacific Telesis	+7.5%
4. Puerto Rico Tel	+4.5%
5. C-TEC	+4.0%

Five Biggest LEC Cutters in 1988

1. Anchorage Tel	-29%
2. Cincinnati Bell	-14%
3. GTE	-7%
4. Ameritech	-4%
5. U S West	-3%
Contel	-3%
Alltel	-3%
Century	-3%
Lincoln	-3%

C-TEC's outlay will go from roughly $28 million last year to $29 million in 1988, a 4% boost in spending.

Citizens Utilities will spend $36 million in 1988, up 3% from the $35 million it spent last year.

Downward Bound

GTE, the giant of the Independent industry and one of the giants in the entire telecommunications industry, will slash its expenditures by 7% this year. GTE spent $2.54 billion in 1987. In 1988, the company plans to spend $2.36 billion, a $180 million cutback.

Since the entire LEC industry will cut its 1987 level of expenditures by $183 million in 1988, GTE's $180 million cut represents nothing less than 98% of the total decrease in LEC spending. Thus, the Connecticut-based giant is doing more than any other company to stamp its mark on the industry's spending picture for 1988.

Centel, which spent $187 million last year, will reduce its 1988 outlay by about 2% to $184 million, a $3 million differential.

Alltel will cut its expenditures by $5 million, or 3%, this year. Alltel spent roughly $161 million last year and will spend about $156 million in 1988.

Cincinnati Bell will cut its expenditures by $13 million and slash spending by 14%. Cincinnati Bell spent roughly $95 million last year and will spend about $82 million in 1988.

Century will cut its $38 million 1987 outlay to $37 million this year, a 3% reduction.

Lincoln Tel will spend $34 million in 1988, down 3% from the $35 million it spent last year.

Anchorage Tel will chop its expenditures by a whopping $11 million, or 29%, from $38 million in 1987 to $27 million in 1988.

CP National will reduce its expenditures from $21 million in 1987 to $20 million in 1988, a 5% reduction.

Illinois Consolidated will hold steady. It spent $8 million in 1987 and will again this year.

Glance at IXCs

Among the major IXCs, AT&T will increase its expenditures from $2.36 billion last year to $2.95 billion in 1988. That $590 million differential represents a whopping 25% increase.

AT&T's IXC competitors all intend to cut their 1988 expenditures.

MCI, which spent $800 million last year, will spend $700 million this year, a $100 million, or 12.5%, reduction.

US Sprint, which spent $900 million last year, will spend $850 million this year, a $50 million, or 5.5%, cut.

ALC Communications spent $36 million last year. It will spend $34 million next year, a $2 million, or 5.5%, reduction.

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TABLE 2 LOCAL EXCHANGE CARRIERS' POST-DIVESTITURE BUDGETS

EQUIPPED LINES JUNE 30, 1987	TOTAL LOCAL SWITCHES		POST-DIVESTITURE CONSTRUCTION SPENDING ($ millions) ACTUAL 1984	1985	1986	ESTIMATED 1987	1988	1989	AVERAGE 1984-86	AVERAGE 1987-89
		REGIONALS								
		Ameritech								
4,597,903	191	Illinois Bell	500.6	673.6	653.5	605.0	599.1	580.3	609.2	594.8
1,779,580	164	Indiana Bell	196.4	207.5	234.9	231.8	192.7	208.7	212.9	211.1
4,549,574	384	Michigan Bell	427.0	464.0	525.0	510.0	535.0	527.0	472.0	524.0
3,579,745	243	Ohio Bell	355.6	342.9	386.2	359.1	297.4	298.2	361.6	318.2
1,859,640	123	Wisconsin Bell	203.6	208.5	194.8	165.9	163.0	158.0	202.3	162.3
16,366,442	1,105		1,683.2	1,896.5	1,994.4	1,871.8	1,787.2	1,772.2	1,858.0	1,810.4
		Bell Atlantic								
6,620,000*	597*	C & P Companies	777.7	929.2	970.8	950.6*	940.0*	940.0*	892.6	943.5
5,059,600	208	New Jersey	538.8	519.6	587.9	560.0*	555.0*	555.0*	548.8	556.7
5,697,300	440	Bell of PA	532.0	629.0	709.0	762.0	775.0*	775.0*	623.3	770.7
17,376,900	1,265		1,848.5	2,077.8	2,267.7	2,272.6	2,270.0	2,270.0	2,064.7	2,270.9
		Bell South								
7,678,703	938	South Central	935.1	1,045.1	1,121.8	1,141.5	1,185.0	1,145.3	1,034.0	1,157.3
8,850,000*	630	Southern Bell	1,321.3	1,594.9	1,695.7	1,815.7	1,762.9	1,797.0	1,537.3	1,791.9
16,528,703	1,568		2,256.4	2,640.0	2,817.5	2,957.2	2,947.9	2,942.3	2,571.3	2,949.1
		Nynex								
10,205,000*	675	New York	1,108.3	1,248.6	1,325.5	1,395.0	1,454.3	1,420.8	1,227.5	1,423.4
5,396,000*	656	New England	769.2	852.9	759.1	861.9[b]	836.0*	810.0*	793.7	836.0
15,601,000	1,331		1,877.5	2,101.5	2,084.6	2,256.9	2,290.3	2,230.8	2,021.2	2,259.3
13,670,000*	950*	Pacific Telesis[a]	2,040.3	2,163.1	1,682.5	1,582.0*	1,700.0*	1,700.0*	1,962.0	1,660.7
11,145,000*	1,315	Southwestern Bell	1,719.9	1,952.3	1,863.8	1,400.0	1,400.0	1,400.0	1,845.3	1,400.0
		US West								
6,565,021	809	Mountain Bell	899.6	1,002.2	883.3	900.0*	880.0*	850.0*	928.4	876.7
3,471,958	661	Northwestern Bell	409.3	531.4	428.0	467.1	454.4	427.1*	456.2	449.5
2,852,709	256	Pacific NW Bell	351.0	393.0	383.0	356.0	328.0	320.0	375.7	334.7
12,889,688	1,726		1,659.9	1,926.6	1,694.3	1,723.1	1,662.4	1,597.1	1,760.3	1,660.9
		TOP 18 INDEPENDENTS								
12,632,000	2,749	GTE	2,137.4	2,381.4	2,504.4	2,538.5	2,361.8	2,273.2	2,341.1	2,391.2
3,771,282	1,101	United	509.0	564.0	550.0	632.0	638.0	652.0	541.0	640.7
2,491,733	2,525	Contel	469.8	439.4	464.6	488.8	506.3	525.0*	457.9	506.7
1,984,330	148	SNET	214.3	246.3	294.9	368.5	380.0*	360.0*	251.8	369.5
1,517,801	269	Centel	162.8	165.6	179.2	186.7	183.5	165.3	169.2	178.5
22,397,146	6,792		3,493.3	3,796.7	3,993.1	4,214.5	4,069.6	3,975.5	3,761.0	4,086.5
1,022,000	486	Alltel	146.3	163.4	164.7	160.7	155.5	143.6	158.1	153.3
880,646	57	Cincinnati	59.5	85.2	79.7	95.3	82.2	78.0	74.8	85.2
772,708	135	Puerto Rico Tel	109.3	114.8	162.0	220.0	230.0	160.0	128.7	203.3
546,000	76	Rochester	56.8	94.4	84.9	84.5	88.4	78.4	78.7	83.8
256,706	154	Century	37.0	39.0	40.0	38.0	37.0	35.0	38.7	36.7
3,478,060	908		408.9	496.8	531.3	598.5	593.1	495.0	479.0	562.2
245,000*	206	TDS	28.1	27.7	32.3	33.3	39.5	32.3	29.4	35.0
229,284	133	Lincoln	30.4	30.8	27.6	35.1	34.1	29.0	29.6	32.7
251,200	185	Pacific Telecom	30.8	41.3	45.0	39.1	41.6	46.9	39.0	42.5
196,000	71	C-TEC	15.0	23.0	24.9	27.5	28.8	25.6	21.0	27.3
112,985	8	Anchorage	41.7	53.2	57.0	37.8	26.9	26.0	50.6	30.2
88,559	35	Illinois Cons.	11.0	12.0	13.0	8.0	8.0	8.0	12.0	8.0
107,620	47	Citizens Ut.	21.1	19.3	27.3	35.4	36.3	36.0*	22.6	35.9
75,000*	30*	CP National	15.2	19.2	20.5	21.0*	20.0*	20.0	18.3*	20.3*
1,305,648	715		193.3	226.5	247.6	237.2	235.2	223.8	222.5	232.1
		LEC's TOTAL								
103,577,733	9,240	7 Regionals	13,085.7	14,757.8	14,404.8	14,063.6	14,057.8	13,912.4	14,082.8	14,011.3
27,180,854	8,415	Top 18 Independents	4,095.5	4,520.0	4,772.0	5,050.2	4,897.9	4,694.3	4,462.5	4,880.8
6,478,020*	1,485*	Other Independents	722.7	797.6	842.1	891.2	864.3	828.4	787.5	861.3
137,236,607	19,140		17,903.9	20,075.4	20,018.9	20,005.0	19,820.0	19,435.1	19,332.8	19,753.4

Source: Telephony/Market Research

* Telephony estimates

a: Combined Pacific Bell and Nevada Bell

b: Based on reported spending of $574.6 million through 8/87

Spending *continued*

NTN, which spent $450 million last year, will cut its spending to $100 million this year, a $350 million, or 78%, reduction.

(*Telephony* will publish a detailed analysis of the IXC industry in our annual overview of the industry. That article will appear in our March 14 issue.)

The Money Trail

Where is all this money going?

Telecommunications service providers are taking advantage of technological progress on several fronts, as their expenditures demonstrate. The big ticket items continue to be central office switches and equipment, transmission equipment, and cable and wire, particularly underground cable and wire. But they also are spending large sums on customer premise equipment for both internal and external uses, data communications, land and buildings, computers for internal uses and vehicles and construction equipment (Figure 1).

As Figure 2 illustrates, LECs plan to spend $3.8 billion in 1988 on central office switches and equipment, far and away the largest expenditure for any one technology.

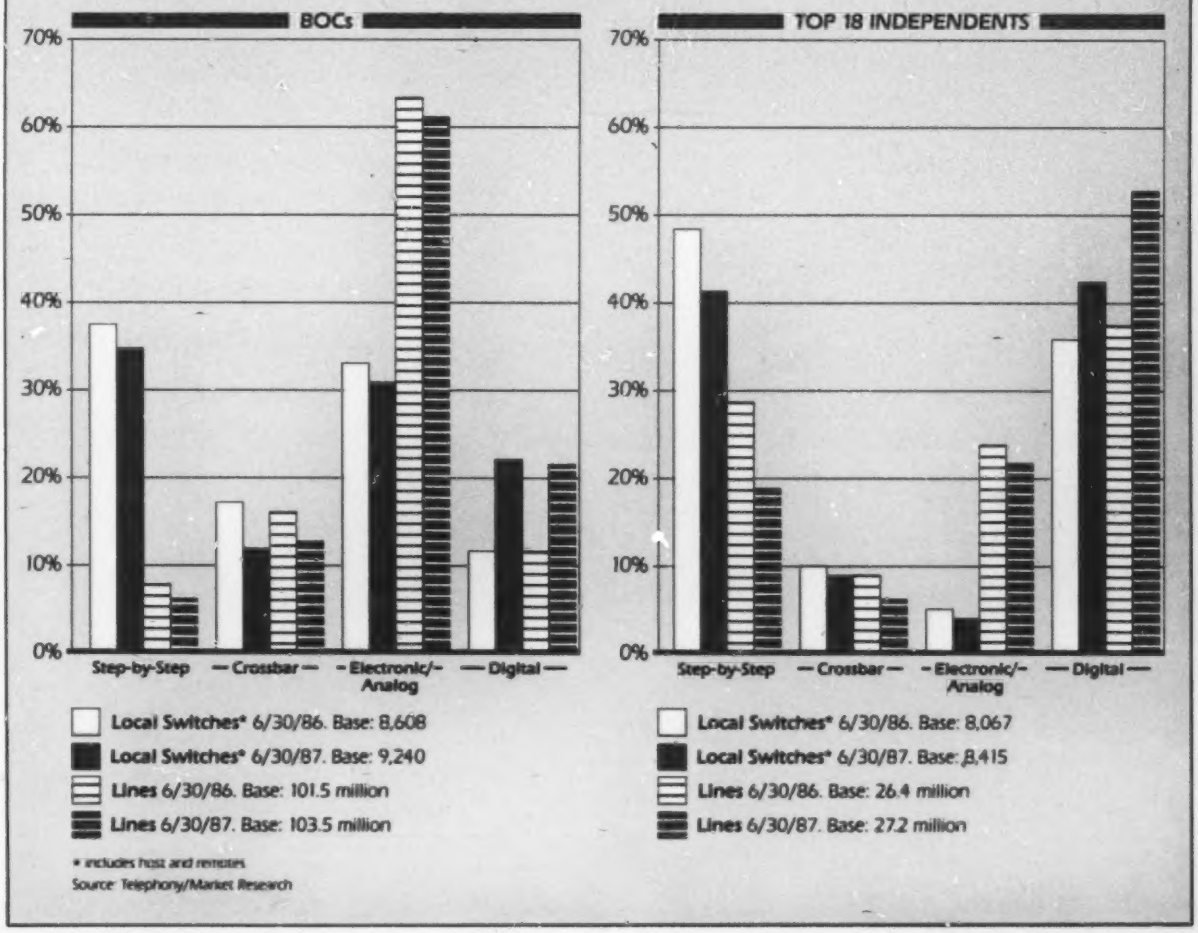
The LECs also plan to spend $2.3 billion on transmission equipment.

Figure 2 also demonstrates the portion of LEC expenditures in each major technological category that goes for equipment and the portion that goes for capitalized labor. For instance, slightly more than 70% of all LEC expenditures on switching is for the equipment. By comparison, less than 40% of the expenditure on underground cable is for the cable. The rest is for capitalized labor.

As would be expected, the industry's drive to make the public network all-digital has continued during the past couple of years and is expected to continue in 1988 (Figure 3).

The most striking recent change is the rapid increase in the installation of digital switches for

FIGURE 3 LECs' DIGITAL SWITCHES & LINES: 1986 VS. 1987



local applications. Correspondingly, telephone companies continue to install digital transmission capability as rapidly as possible.

However, many RHC telco customers continue to be served by electronic/analog switches and transmission facilities.

Many Independent customers continue to be served by step-by-step switches and appropriate transmission equipment.

Prospects

The outlook for 1989 is for the decline in industry expenditures apparent in the past two years to accelerate. And the Top 18 Independents will continue to drive the downward acceleration.

The entire industry, both LECs and IXCs, will spend $23.97 billion next year, down $480 million from the $24.45 million it will spend this year. That represents a 2% decrease in spending in 1989, more than double the rate of the 1988 decrease.

Both the LEC and the IXC segments of the industry will reduce their expenditures by 2%. LEC spending will decline $380 million next year, from $19.82 billion in 1988 to $19.44 billion in 1989.

IXC spending will drop by $100 million, from $4.63 billion in 1988 to $4.53 billion in 1989.

However, RHC spending will decrease by only 1%. RHCs will spend $14.06 billion this year and $13.91 billion next year, a $150 million decrease.

The Top 18 Independents will record a much sharper drop. Top 18 Independent expenditures will drop about $200 million in 1989, from $4.90 billion in 1988 to $4.70 billion in 1989, a 4% reduction.

Other Independents also will reduce spending by 4%, from $864 million in 1988 to $828 million in 1989, a $36 million cut.

The industry is not in a sharp downturn. However, industry spending is downward bound. The segment pacing this downward spin in spending is the Independent industry, particularly the Top 18 Independents.

GTE, by the way, will again cut its expenditures in 1989, but more modestly. Its 1988 expenditures of $2.36 billion will be trimmed by $90 million to $2.27 billion, a 4% reduction next year compared to the 7% reduction it will make this year.

GTE and the other leading Independents along with the RHCs will continue to hold the key to spurring a renewed cycle of growth as the industry enters the 1990s. □

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